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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000178

SIPDIS

DOE FOR GPERSON, CHAYLOCK

E.O. 12958: DECL: 04/08/2019
TAGS: EPET ENRG PGOV NI
SUBJECT: NIGERIA: OIL EXEC SAYS POOR HEALTH HAS SIDELINED
PETROLEUM MINISTER

REF: LAGOS 155

Classified By: Consul General Donna M. Blair for reasons 1.4 (B) and (D
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¶1. (C) Summary: On 06 April, Akin Odumakinde, Managing Director of the large Nigerian petroleum engineering service firm DeltaAfrik said he has seen some recent improvement in getting large contracts approved by the Nigerian National Petroleum Corporation (NNPC), a process that had stalled over the past two years. He attributed the improvement to the new leadership in NNPC and an increasing awareness by the GON that it needs to do something to improve oil production levels. However, he said Minister of Petroleum Resources Rilwanu Lukman is increasingly in ill health and the Minister missed two recent meetings of the Federal Executive Council. As a consequence, there is no strong advocate in the Executive branch for the petroleum industry reform legislation recently introduced into the National Assembly, and President Yar'Adua is reluctant to take the lead on a bill that threatens special interests benefiting from the status quo in the petroleum sector. Legislators from the Niger Delta may stall the bill because of their opposition to Lukman's appointment as oil minister, a job they believe should have gone to a fellow Niger Deltan. Odumakinde said ExxonMobil has reached a USD 1.5 billion deal with GON to fund joint venture operations through 2011. Exxon is reportedly the most active international oil company in Nigeria, taking advantage of lower prices in the oil field service sector to develop and expand existing fields off-shore Akwa Ibom State. With the Minister reportedly increasingly disengaged from his duties because of health reasons coupled with the political maneuvering already beginning for the 2011 election, the petroleum reform legislation may be stalled for some time to come. While viewed as flawed by the industry, the bill was at least a basis for discussion toward reforming the troubled petroleum sector. End Summary.

Contract Approvals Flowing Again

¶2. (C) On 06 April, Akin Odumakinde, Managing Director the petroleum engineering service firm DeltaAfrik told Energyoff that the National Petroleum Investment Management Service (NAPIMS), the NNPC unit that approves oil related contracts, has within the last two months begun approving contracts for

new and existing oil and gas projects. For the past two years NAPIMS had stalled almost all contracts of any significant value for reasons that were never very clear. Now, according to Odumakinde, under the new leadership of NNPC Group Managing Director (GMD) Mohammed Barkindo, NAPIMS has begun to approve contracts once again. While not moving as fast as the industry would like, Odumakinde said it was an improvement over the situation that existed over the past few years. He said GMD Barkindo has been influential in getting the process moving again while others in the GON have come to the realization that something must be done about declining oil production.

Oil Minister in Poor Health; Disengaged from Policy
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¶3. (C) Not all of the news for Odumakinde was as positive. He said the Minister for Petroleum Resources, Dr. Rilwanu Lukman is growing increasingly ill and has missed two recent Federal Executive Council meetings. According to Odumakinde, Lukman recently spent two weeks on vacation in Vienna where he sought medical attention for unspecified reasons. Odumakinde also said he understood that Lukman had agreed to take the position of Minister at the request of President Yar'Adua with the understanding he could resign after a year in office. With Lukman increasingly disengaged from petroleum policy and GMD Barkindo focused on current operations at NNPC, Yar'Adua has no trusted oil and gas policy advisor. As a consequence, there is currently no strong advocate in the Executive branch for the Petroleum Industry Bill, a comprehensive piece of reform legislation

designed to completely overhaul Nigeria's petroleum sector. Odumakinde believes the bill faces strong opposition from interests benefiting from the status quo and President Yar'Adua is not willing or able to press the legislature effectively. Additionally, the National Assembly is at odds with Lukman who has ignored repeated demands that he appear before various petroleum related legislative committees to answer questions. According to Odumakinde, Niger Delta legislators are particularly unhappy with Lukman who they believe took a post that should have gone to fellow Niger Deltan and current oil junior minister, Odein Ajumogobia. Legislators may use their unhappiness with Lukman as a reason to stall work on the Petroleum Industry Bill.

¶4. (C) Odumakinde was uncertain on the fate of the Local Content Bill which mandates strict levels of Nigerian content in oil and gas contracts. He thought the bill was about "50 percent" through the House of Representatives, having already passed the Senate. Odumakinde recently participated in a round table discussion with legislators on the bill and said he believes that provisions mandating majority Nigerian ownership in petroleum companies operating in Nigeria had been dropped from the most recent version of the bill. He thought the bill was closer to passage than it has been in recent years, but agreed the National Assembly didn't have a record of passing major legislation.

ExxonMobil Ramping up Operations

¶5. (C) On current operations, Odumakinde said ExxonMobil is taking advantage of falling oil prices to ramp up activity in its near off-shore oil fields, which are generally newer and lower cost than aging Shell, Chevron, and Total fields. Within the last two weeks, Exxon signed a USD 1.5 billion modified carry agreement with the GON that finances the GON's portion of joint venture operating expenses through 2011. Odumakinde said his company's work for ExxonMobil is expanding as the oil producer seeks to position itself for an eventual oil price rebound. (Note: Executives at other oil field service companies have informally noted the same pattern; while most international oil companies in Nigeria are scaling back oil field work, Exxon is aggressively

contracting with oil field service companies as it seeks to expand its fields off-shore of Akwa Ibom State. End Note)

¶6. (U) DeltaAfrik is a joint venture with the Australian/U.S. oil engineering service company WorelyParson and a Nigerian engineering company. It is one of the largest and most active engineering service companies in Nigeria and has substantial contracts with ExxonMobil, Shell, Total, and Chevron. DeltaAfrik employs 120 expatriates and over 450 Nigerian engineers, project managers and technology professionals specializing in engineering, procurement, construction, and management contracts.

¶7. (C) Comment: The news that NAPIMS is once again approving oil related contracts, albeit slower than hoped for, is encouraging and a further sign that GMD Barkindo is making his influence felt within NNPC. On the other hand, news that Lukman may be in poor health and increasingly disengaged from policy is disappointing but not surprising. Most in the industry assumed he was ill and reluctant to take the job when his appointment was announced late last year. The Petroleum Industry Bill, which Lukman shepherded through its drafting and introduction into the National Assembly, is seen by private industry as a flawed step in the right direction. While they recently expressed serious concerns to the Ambassador about the bill's troubling lack of specifics in key areas such as fiscal terms and joint venture structure (Reftel), industry representatives at least view the bill as an opportunity to engage the GON on a way forward for a troubled sector. The National Assembly was always going to be the stumbling block for the bill; it has neither the internal expertise nor political inclination to tackle such a complex piece of legislation. With the political maneuvering already beginning for the 2011 election and with the bill's principle champion Lukman apparently sidelined for health

reasons, any chance the bill had for quick passage through the legislative process may have already slipped away. Future investment in the petroleum sector will likely to continue to be affected until such time as Nigeria improves the legal framework under which international oil companies work. End Comment.

¶8. (U) This cable cleared by Embassy Abuja.
BLAIR